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181357Z Mar 05

ACTION AF-00

INFO	LOG-00	NP-00	AID-00	CEA-01	CTME-00	INL-00	USNW-00
	DODE-00	DOEE-00	PERC-00	EAP-00	EB-00	EXIM-01	E-00
	VC-00	FRB-00	TEDE-00	INR-00	ITC-01	LAB-01	VCE-00
	AC-00	NRC-00	NSAE-00	NSCE-00	OES-00	OIG-00	OMB-00
	NIMA-00	MCC-00	GIWI-00	ACE-00	FMPC-00	SP-00	IRM-00
	SSO-00	SS-00	STR-00	BBG-00	EPAE-00	IIP-00	SCRS-00
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FM AMEMBASSY ACCRA

TO SECSTATE WASHDC PRIORITY 8140

INFO DEPT OF TREASURY WASHDC PRIORITY

CIA WASHDC PRIORITY

USDOC WASHDC PRIORITY 0396

C O N F I D E N T I A L ACCRA 000552

SIPDIS

TREASURY FOR ALEX SEVERENS, LUKAS KOHLER
PASS TO MILLENNIUM CHALLENGE CORP WASHDC

E.O. 12958: DECL: 03/17/2010

TAGS: [EFIN](#) [ENRG](#) [ETRD](#) [KMCA](#) [GH](#)

SUBJECT: AMBASSADOR MEETS GHANA'S NEW ENERGY MINISTER, MIKE
OQUAYE

Classified By: Ambassador Mary C. Yates for Reasons 1.5 (B and D)

Summary

1. (C) The Ambassador used a March 14 courtesy call on new Energy Minister Mike Oquaye to inquire about the status of petroleum sector deregulation and highlight USAID technical assistance to the energy sector and West Africa Gas Pipeline. Oquaye confirmed the GoG would halt the deregulation process to prevent further fuel price increases. This will complicate the March/April IMF mission, since petroleum deregulation is an IMF priority. End Summary.

Delays in Petroleum Sector Deregulation

2. (C) Minister Oquaye confirmed comments Post heard from Bank of Ghana sources that the GoG will NOT/NOT allow additional fuel price increases (on top of the 50 percent increase on February 20), despite higher world market prices. Oquaye made it clear that the GoG had hoped for world petroleum prices to decline after the February decision. Instead they have increased roughly 15-20 percent, and Cabinet Ministers have agreed further price hikes in Ghana are politically untenable at this time.

3. (C) Oquaye noted that the GoG obtained Union, transport, and other stakeholders' support for the initial increase, partially by agreeing to cross subsidize kerosene and other fuels that the poor generally use. He added that following the outcry in the press and two NDC-led demonstrations -- both peaceful -- on March 8 and March 17 protesting the price hikes, there is no support for additional increases. (Note: the March 17 demonstration attracted 5,000 people, quite a bit larger than the minor and unimpressive March 8 protest, but still well below the turnout the NDC had hoped for. End Note)

4. (C) Oquaye explained that the overarching goal of petroleum deregulation is to ensure full cost recovery in the petroleum sector, and remove the GoG from the supply and financing of the country's petroleum requirements. In practice, this is supposed to relieve the GoG from subsidizing the Tema Oil Refinery (TOR). Under the new regime, the private sector will participate in a competitive tender to import refined petroleum. The winning (lowest) bid sets the base price for petroleum, upon which the GoG will apply various taxes and levies, thereby determining the final retail price for all importers, including TOR.

5. (C) The first tender under this process is scheduled for late March/early April. Oquaye stated that this tender would undoubtedly result in price increases at the pump, since world prices have risen over 15 percent from the level used to calculate the 50 percent increase in February. To avoid this, Oquaye said the GoG had decided to pursue one of two options: 1) postpone the tender and have the parastatal Bulk Oil Storage and Transportation Company (BOST) release strategic reserves; or 2) allow the tender to proceed but cap retail prices. Under this second scenario, the GoG would divert petroleum taxes to cover the differential for TOR (and, ostensibly, private oil companies).

16. (C) Oquaye recognized that full implementation of petroleum deregulation is the IMF's priority, and he praised the relationship with the IMF and other development partners. He reassured the Ambassador that this was an interim measure and the GoG would not go back on the principle of market determined fuel prices. The Ambassador responded that it was critical that the GoG obtain Parliamentary approval of the implementing legislation and regulations (a pre-condition for IMF Board approval). The deregulation law and regulations, in draft stage, together should legally remove the GoG from the price setting process, leaving price determination up to the application of a transparent pricing formula.

17. (C) Comment: Post's contacts at the Bank of Ghana (BoG) warned about GoG attempts to avoid implementing the promised deregulation. BoG sources say the internal discussion is now focused on how to deal with the IMF, which will conduct its third review under the Poverty Reduction and Growth Facility March 28 to April 16. The IMF's priority is for Ghana to institute a transparent, market-based pricing system, mainly because it such a system would in theory resolve the IMF's two-year impasse with the GoG over government subsidies to TOR (over USD 200 million per year).

18. (C) Comment Continued: The GoG has avoided serious reform to the energy pricing system for over two years, always in the hope that world energy prices would come down. If the

GoG refuses to allow a price increase, as Oquaye stated, this would be the fourth time the GoG has failed to live up to its commitment to the IMF since President Kufuor announced in September 2003 that the GoG would deregulate the petroleum sector. This action would complicate IMF staffs' goal of completing the review and submitting it for IMF Board approval in May. The GoG already needs waivers for missing domestic debt targets in 2004. The GoG's plan to divert petroleum taxes to subsidize TOR would further annoy the IMF, since the anticipated one trillion cedi increase in revenues from petroleum taxes are required to cover the GoG's planned 25 percent increase in government salaries. End Comment.

USAID Technical Assistance to Energy Sector

18. (C) The Ambassador noted that both the USAID-Ghana and USAID-West Africa Regional Program (WARP) continue to provide technical assistance on energy sector issues. USAID-WARP has taken over from USAID-Ghana in providing TA to help Nigeria, Ghana, Togo, and Benin meet the next critical milestone for the West Africa Gas Pipeline (WAGP): the March 31 "Construction Commitment Date." WARP has extended the current NEXANT technical assistance contract to March 30, 2006, and will focus primarily on supporting the WAGP Authority. WARP is also providing TA to the West African Power Pool project (to interconnect 14 West Africa countries' electricity grids). USAID-Ghana is providing technical assistance and training to strengthen Ghana's energy regulatory framework, especially the gas regulatory framework to get ready for WAGP gas in 2007.

19. (C) Oquaye welcomed the Ambassador's suggestion to arrange a combined USAID Ghana and WARP briefing on their respective TA programs. (Comment: USAID/ECON will use this briefing to suggest Ministry priorities for the next year for WAGP and energy sector in general. End Comment)

BIO DATA

10. (SBU) Energy Minister Mike Oquaye (AKA Professor Aaron Michael Oquaye) is a Member of Parliament for Dome-Kwabanya in the Greater Accra Region. Oquaye became involved in politics in 2002 when he ran for National Chairman of the NPP. President Kufuor preferred Herona Esseku, and instead appointed him to serve as Ghana's Ambassador to India. He served in India from April 2003 through January 2005, a period of significant expansion in the Ghana-India relationship. Oquaye claims to be fiercely pro-American. He studied in the U.S. on a Fulbright scholarship in 1997 (in Virginia), and says he has also visited the U.S. several times under the IV program and as a visiting scholar (Note: he also studied in London on a Rockefeller Scholarship and earned his Ph.D. at the University of London. End Note) Oquaye's background is in political science and he does not yet have a good grasp of the energy sector. Nevertheless, he claimed the President put him at Energy "because of all the challenges" in that sector.

YATES

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